Kristin Pono Sousa, Medicaid Program Director
Executive Office of Health and Human Services
3 West Road, Virks Building
Cranston, RI 02920

January 19, 2023

Sharon Reynolds Ferland, House Fiscal Advisor
Joseph M. Codega, State Budget Officer
Stephen H. Whitney, Senate Fiscal Advisor

VIA Email

RE: Federal Fiscal Year (FFY) 2024 / State Fiscal Year (SFY) 2024 Disproportionate Share Hospital (DSH) Payment

Caseload Conferees,

This letter is to formally notify you that EOHHS has identified an error in its October caseload testimony regarding the FFY 24 / SFY 24 DSH allotment reductions. Given CMS has not yet released preliminary FFY 2024 allotments, EOHHS testimony used the Medicaid and CHIP Payment Commission's (MACPAC's) "March 2022 Report to Congress on Medicaid and CHIP," specifically Appendix Table 3A-2, to budget the projected federal reductions. EOHHS projected the total FFY 2024 federal allotment would decrease from $83.4M to $75.0M, which resulted in an adopted FFY 2024 / SFY 24 DSH payment totaling $136,338,847.

EOHHS has since confirmed with MACPAC that the total Federal allotment is not $75.0M, but rather **a projected decrease of $75.0M** from the unreduced allotment of $83.4M (Table I). EOHHS now anticipates that the maximum FFY 2024 DSH payment available to Rhode Island is $15.3M as shown below in Table II. EOHHS reached out to CMS to confirm MACPAC's projections, but CMS stated it will not release the FFY 2024 federal allotment until 10/1/2023 and referred us back to MACPAC for questions about their projections.

I. MACPAC Allotment Reductions as Presented in Appendix Table 3A-2[1]

Unreduced Allotment	$83.4
Allotment Reduction	$75.0
Variance (Max Federal Allotment)	**$8.4**

[1] March 2022 Medicaid and CHIP Payment Commission. (March 2022) "March 2022 Report to Congress on Medicaid and CHIP" Internet: https://www.macpac.gov/wp-content/uploads/2022/03/Chapter-3-Annual-Analysis-of-Disproportionate-Share-Hospital-Allotments-to-States.pdf, Appendix Table 3A-2.

II. Projected Maximum FFY 2024 / SFY 2024 DSH Payment

Max Federal Allotment	$8,400,000	FMAP: 55.01%
State Share	$6,869,951	FMAP: 44.99%
Total DSH Payment	**$15,269,951**	

National DSH allotments are scheduled to be reduced by $8 billion in FY 2024. MACPAC's model, estimates how these reductions are allocated based on CMS' DSH Health Reform Methodology (DHRM) [federalregister.gov]. In an email to EOHHS, MACPAC noted that the large reduction for Rhode Island results from the State's small unreduced DSH allotment when compared to other high DSH states. That, combined with RI's low uninsured rate, means that the State gets to the statutory reduction limit (90 percent) quickly. Please see the attachment for MACPAC's more detailed description of Rhode Island's DSH reduction. Note, the DSH reductions have been delayed several times since their inception. The proposed reduction could, again, be further delayed or altered. The MACPAC report referenced describes previous delays in the reductions as well in the methods used to calculate the reductions.

If you have questions, do not hesitate to reach out to me or Kim Pelland, Medicaid CFO.

Sincerely,

Kristin Pono Sousa

Kristin Pono Sousa
Medicaid Director
Executive Office of Health and Human Services

cc Ana Novais, Acting Secretary, EOHHS

Attachment: MACPAC Response to Factors Driving the Projected 90% Reduction in MACPAC's Projections for RI's FFY 2024 Allotment

Thanks for your email and reading our 2022 DSH report. The short answer to your question is that RI has a large DSH percentage cut because the state has a small unreduced DSH allotment when compared to other high DSH states. That combined with RI's low uninsured rate means that the state gets to the statutory reduction limit (90 percent) pretty quickly.

National DSH allotments are scheduled to be reduced by $8 billion in FY 20204. MACPAC's model, which was developed by Dobson, DeVanzo, and Associates, estimates how these reductions are allocated based on CMS' DSH Health Reform Methodology (DHRM) [federalregister.gov], and uses data collected from CMS, the Congressional Budget Office (CBO), and the Census Bureau. We cannot speak to the data sources that CMS uses as inputs to the DHRM, and CMS' inputs might differ from our inputs. Our 2022 model projects each state's FY 2022 unreduced DSH allotment and FY 2019 Medicaid expenditures [macpac.gov] to FY 2024 using the CBO baseline [cbo.gov]. We then apply the DHRM. DHRM applies five factors when allocating $8 billion in reductions:

- **Low-DSH factor** - Allocates a smaller proportion of total DSH allotment reductions to low-DSH states. These are states which had DSH spending lower than 3 percent of Medicaid medical spending in FY 2000 (Section 1923(f)(5) of the Social Security Act). There are only 17 low-DSH states. Rhode Island is considered a high-DSH state, and therefore its reductions are shared with other high-DSH states. Based on our model, almost 99% of the $8 billion in reductions will be allocated to high-DSH states.
- **Uninsured percentage factor** - Imposes larger reductions on states with lower uninsured rates relative to other states. Our 2022 report used 2019 Census data [data.census.gov] for this factor. Rhode Island has a low uninsured rate compared to other high-DSH states, which means they receive a larger percentage cut compared to other high-DSH states.
- **High volume of Medicaid inpatients factor -** Imposes larger reductions on states that do not send DSH payments to hospitals with high Medicaid volume. Our 2022 report estimates this factor using SPRY 2017 Medicaid DSH audit data [medicaid.gov], which only has data on DSH hospitals. Rhode Island is comparable to many other states in DSH payments to hospitals with high Medicaid volume. However, because Rhode Island has a small allotment compared to other high-DSH states, the reduction makes up a large percentage of its unreduced allotment amount.
- **High level of uncompensated care factor -** Imposes larger reductions on states that do not send DSH payments to hospitals with high levels of uncompensated care. Our 2022 report estimates this factor using SPRY 2017 Medicaid DSH audit data, which defines uncompensated care as the sum of Medicaid shortfall and unpaid costs of care. Rhode Island is comparable to many other states in DSH payments to hospitals with high uncompensated care. However, because Rhode Island has a small allotment compared to other high-DSH states, the reduction makes up a large percentage of its unreduced allotment amount.

- **Budget neutrality factor -** This is an adjustment to the high Medicaid and uncompensated care factors that accounts for DSH allotments that were used as part of the budget neutrality calculations for coverage expansions under waivers under Section 1115 of the Social Security Act as of July 2009. We are unable to estimate this factor because we lack data from CMS, and can't speak to how this will affect Rhode Island.

However, the DHRM also limits each state's reduction to 90% of its unreduced amount and the remaining reduction is allocated to other states. Our estimates of the five factors effectively reduces RI's allotment to zero, which is why we estimate that RI will have a 90 percent reduction in FY 2024.